

## 15. SOCIAL SECURITY

**Table 15-1. Federal Resources in Support of Social Security**

(Dollar amounts in millions)

Function 650	1993 Actual	2001 Estimate	Percent Change: 1993–2001
<b>Spending:</b>			
Discretionary budget authority .....	2,640	3,447	31%
Mandatory outlays .....	301,986	431,406	43%
<b>Tax expenditures</b> .....	23,655	25,980	10%

When the Social Security Act was enacted in 1935, President Roosevelt envisioned a program that would eliminate the blight of poverty from the lives of elderly Americans and allow them to maintain their dignity and independence. While the original goal was to provide income insurance to protect workers upon retirement, the program has evolved over time to include spouses, dependents, survivors and disabled workers. The Old-Age, Survivors, and Disability Insurance (OASDI) programs, commonly known as Social Security, have met President Roosevelt's goal and are considered among the most successful domestic programs in our Nation's history.

The importance of Social Security has been emphasized throughout the Clinton-Gore Administration. This Administration helped the program serve today's population better, and took action to ensure that the program will remain strong to serve future generations. The President's balanced budget proposal for 1999 marked a turning point in that regard. Once this Administration had conquered the budget deficit, it set to work to solve the generational deficit—the budgetary pressure that was projected to result from the aging of the population, especially the baby boom generation.

In 1995, the Social Security Administration (SSA) became an independent agency, focused on building the public's confidence in Social Security by improving customer service, public

education, and program integrity. Since that time, the programs have strengthened the incentives for both retirement and disability beneficiaries to work.

### The Role of Social Security

The OASDI programs are crucial to the economic well-being of tens of millions of Americans. Social Security will spend about \$434 billion in 2001 to provide more than 45 million beneficiaries with comprehensive protection against loss of income due to the retirement, disability or death of a worker. The Old-Age and Survivors Insurance program (OASI) insures retired workers and their eligible spouses, children, and survivors. In 2000, Social Security paid out almost \$289 billion to 31 million retired workers and dependent family members, and about \$59 billion in benefits to seven million survivors of deceased workers. The Disability Insurance program (DI) provides a similar type of insurance to workers who become disabled, and to their dependents. In 2000, Social Security paid over \$54 billion in benefits to more than six million disabled workers and family members.

The Government will collect an estimated \$512 billion in Social Security taxes in 2001. These taxes will be credited to the OASI and DI trust funds, along with almost \$60 billion of interest on Treasury securities held by the trust funds.

Many beneficiaries would face a high risk of poverty without the income protection provided by Social Security. When President Roosevelt signed Social Security into law, most seniors were poor. Since then, Social Security benefits have significantly improved the well-being of the Nation. The poverty rate among those 65 and older was 12.2 percent in 1993, and reached an all time low of 9.7 percent in 1999. Without Social Security, nearly half of older Americans would live in poverty.

### **Save Social Security First**

Social Security's most important revenue source is the payroll tax. Currently, the Social Security trust funds are expected to run a cash surplus until 2015. Current economic and demographic forecasts indicate, however, that cash revenues will fall short of expenditures after that time, and the trust funds will exhaust their reserves in 2037 unless corrective action is taken. After 2037, payroll taxes are projected to cover 72 percent of benefits.

In an effort to find a long-term solution, President Clinton's 1998 State of the Union Address called for a commitment to "save Social Security first." The President was about to submit the first balanced budget proposal in almost 30 years, projecting that, with continued fiscal discipline, budget surpluses would continue for several decades. Rather than spend this surplus, the President proposed saving it until meaningful steps were enacted to preserve Social Security.

The President used 1998 to engage in a national discussion about Social Security reform. He led the way with a series of regional nonpartisan forums to build public awareness of the issues, and to build public consensus for action. The year-long national dialogue culminated with a White House Conference on Social Security.

The following year, the President proposed a program to save Social Security through a commitment to sustained fiscal responsibility. Rather than dissipate all of the currently projected on-budget surpluses on new spending or tax cuts, the President proposed a balanced approach to prepare the Nation for the challenges ahead by paying down

the entire debt held by the public by 2013 and by encouraging economic growth. The President's 2000 and 2001 Budgets outlined this approach, which proposed transfers to the trust funds approximately equal to the interest saved by dedicating the Social Security surpluses to debt reduction. The President's plan would extend the solvency of the trust funds to 2057.

The President's commitment to save Social Security first has driven the budget debate. Rather than dissipating all of the currently projected on-budget surpluses on new spending or tax cuts, the President has encouraged a balanced and bipartisan approach to prepare the Nation for the challenges ahead. The President's initiative in starting a conversation about Social Security led to a political imperative stronger than law; there now exists a broad consensus that fiscal responsibility requires that the Social Security surplus not be used to finance other activities or policies. By calling attention to this issue, the President helped to raise the bar of fiscal behavior in a fashion that will have enduring favorable consequences for the economy.

While the Administration's legislative proposal has not been enacted, his call to protect the Social Security surplus has become the basis for policy discussions in this area. The debate over fiscal policy in the near future will continue to be heavily influenced by this approach. This development, plus the expanded public consciousness and understanding of the Social Security issue that arose from the Administration's efforts, will contribute to budget and retirement policy in the coming years.

### **Changes to the Social Security Program**

While the underlying principles of the Social Security program have remained the same, the program has continued to evolve to meet the needs of today's population. Since 1993 there have been numerous initiatives to strengthen Social Security and bolster public confidence in the programs, while making them more accessible and efficient. The changes also reflect shifts in public attitudes and technological advances.

**The Social Security Administration:** The Social Security Independence and Program Improvements Act was enacted in 1994. This law established the Social Security Administration as an independent agency within the executive branch as of 1995. Creating an independent SSA helped to streamline Government operations to serve the American people better, and reinforced the commitment to maintain the confidence of all Americans in the Social Security program.

During its six years as an independent agency, SSA consistently has earned high marks for its management, and for its strategic planning efforts that emphasize service and effective program administration. The 1999 Government Performance Project—an independent, comprehensive study of management performance conducted jointly by the Maxwell School of Citizenship and Public Affairs at Syracuse University and *Government Executive* magazine—ranked SSA at the top of 15 Federal Government agencies. The project gave SSA an overall grade of “A,” and highlighted SSA’s “stellar service” and use of technology to improve transactions with its customers and employees. SSA was also one of the first organizations to recognize the potential information system difficulties related to the year 2000, and was the first agency to be fully prepared.

In addition to administering the Social Security programs, SSA also runs the Supplemental Security Income (SSI) program for low-income aged, blind and disabled individuals, which is discussed in Chapter 14, “Income Security.” In addition, the agency provides services that support the Medicare program on behalf of the Health Care Financing Administration.

**Work Incentives:** In 1993, the Administration made a commitment to a 21st Century vision of America, with opportunity and responsibility for all American citizens. Part of this vision included rewarding work throughout an individual’s life cycle, even if the individual is over the traditional retirement age of 65 or has a disabling impairment. Administration proposals laid the foundation for this vision.

- **Eliminating the earnings test for those over the normal retirement age.**

The Social Security system was designed to encourage older Americans to retire by withholding benefits from workers over the normal retirement age (currently age 65). This was during the Great Depression, when young workers with families faced an economy with a 25-percent unemployment rate. Today, the unemployment rate is about four percent. One in four Americans between 65 and 69 has at least one part-time job, and 80 percent of baby boomers intend to work past age 65.

In 1993, retirement beneficiaries under the age of 70 faced the possibility of losing some or all of their Social Security benefits if they were working. Recognizing the changes in the labor force and work preferences, the Administration worked with the Congress to raise the level of allowable earnings for individuals between the normal retirement age and 69. The Senior Citizens’ Right to Work Act, enacted in 1996, would have gradually increased the retirement earnings test level over a seven-year period. However, by 2000, with a balanced budget and a projected surplus, the Administration signed the Senior Citizens’ Freedom to Work Act, which eliminated the retirement earnings test for individuals between the NRA and 69. This law benefitted the 800,000 older working Americans who received reduced benefits, and also encouraged countless more to seek work.

- **Encouraging individuals with disabilities to return to work.** Both the DI and SSI programs also evolved to reflect changes in the economy, demographics, technology, medicine, and other areas. Many beneficiaries with disabilities, for example, want to be independent and to work—and with the appropriate support, they can achieve these goals.

**Legislative Initiatives.** The Administration strongly advocated for and the President signed the Ticket to Work and Work Incentives Improvement Act of 1999 to help disability beneficiaries enter or return to the work force. Specific to SSA, this law expands beneficiaries’ choices of employ-

ment service providers, extends Federal health benefits for beneficiaries who return to work, and authorizes SSA to carry out demonstration projects to identify effective ways to help disabled beneficiaries return to work.

*Executive Initiatives.* In 1999, the President supported SSA's proposal to increase the amount an individual can earn and maintain eligibility for disability benefits to \$700 from \$500 a month, the level at which it had been fixed since 1990. To ensure that the measure keeps pace with the economy, the President further directed that, beginning in 2001, this amount will be annually indexed to average wages. Also in 2001, the amount an individual can earn during a "trial work period" month (a month during which disabled beneficiaries can test their ability to work without affecting their benefits) will increase from \$200 to \$530, and it will be indexed to average wages in subsequent years. This amount also had been fixed since 1990.

***Public Education and Customer Service:***

The Vice President's National Partnership for Reinventing Government designated SSA, as one of the 32 agencies that deal directly with the public, as a High Impact Agency. As a High Impact Agency, SSA made a commitment to achieve a number of significant concrete measurable goals regarding public understanding of its programs, customer service, and efficiency.

As part of this effort, SSA conducted a survey to measure the public's baseline level of knowledge of Social Security programs. In 1998, only 55 percent of the public was generally knowledgeable about Social Security programs and had a basic understanding of the program concepts. SSA's current goal is that by 2005, nine out of 10 Americans (age 18 and over) will be knowledgeable about Social Security programs.

- **Social Security Statements.** Another of SSA's commitments was to improve the public's understanding of how Social Security affects their lives. In 2000, to reach America's work force, SSA launched the largest customized mailing ever under-

taken by a Federal agency, sending Social Security Statements to approximately 133 million workers age 25 and older who are not receiving Social Security benefits. This annual mailing provides a clear statement of the individual's earnings history and an estimate of his or her future benefits, as well as program information and a summary of the long-term financial challenges the program faces.

- **Social Security Online.** In 1994, SSA launched its web site, Social Security Online ([www.ssa.gov](http://www.ssa.gov)). Since that time, SSA has expanded its web site to serve the public better. For example, Social Security Online provides "pamphlets" on programs and services, a "benefits planner" to assist in financial planning, reports and studies, a field office locator, and answers to frequently asked questions. Via Social Security Online, individuals also can apply for retirement benefits and replacement Medicare cards, download selected forms, submit inquiries to SSA, and subscribe to the electronic monthly newsletter, "e-News." SSA estimates 15 million individuals were attracted to its web site in 2000, up from 22,000 just six years ago.
- **Payment Cycling.** In 1997, SSA began "payment cycling" to pay new beneficiaries on one of three Wednesdays during the month, instead of paying all beneficiaries on the same day of the month. This balanced the distribution of Social Security payments and workload throughout the month, enabling SSA to maintain quality public service to a growing beneficiary population.
- **Improved Disability Adjudication Process.** SSA also committed to streamline its processes, especially disability claims processing and appeals. Disability claims determinations are very complex and time consuming. SSA currently is testing a streamlined disability eligibility determination process on a prototype basis in 10 States. SSA's Office of Hearings and Appeals is also implementing changes to improve efficiency and reduce case processing times.

**Program Integrity**

SSA is committed to ensuring that eligible individuals receive benefits, and that they are paid the correct amount. SSA is also committed to ensuring that only eligible individuals receive benefits. To improve the integrity of its programs, SSA improved its data collection, entered into data sharing agreements with other agencies or institutions when appropriate, and expanded its debt collection tools, among other efforts. One of the Administration's most cost-effective initiatives was improving its continuing disability review (CDR) program. Regularly scheduled disability reviews, which may be a questionnaire or a full medical review, are among SSA's most effective mechanisms for determining whether its disability beneficiaries maintain program eligibility.

In the early 1990s, a large backlog of CDRs built up, due to an unprecedented increase in initial disability claims workloads and a decline in the number of CDRs processed. In 1993, SSA conducted only 48,000 CDRs, as it directed its efforts toward developing and introducing a more efficient CDR questionnaire process. In 1996, the Adminis-

tration and the Congress worked together to provide dedicated resources for SSA to conduct more than eight million CDRs, to eliminate its backlog and maintain current workloads. The agency is on target for meeting this goal. In 2000, SSA invested \$605 million to conduct more than 1.8 million CDRs. SSA estimates approximately \$6 in savings for every \$1 in costs over the lifetime of this initiative.

**Tax Expenditures**

Social Security recipients pay taxes on their Social Security benefits only when their overall income, including Social Security, exceeds certain income thresholds. The exclusion of Social Security income below these thresholds reduces total income tax revenue by an estimated \$26 billion in 2001.

Deficit reduction legislation in 1993 raised the maximum portion of retirement benefits that could be subject to taxation from 50 percent to 85 percent. All of the revenue from this change in the taxation of Social Security benefits is transferred to improve the solvency of the Medicare Hospital Insurance Trust Fund.